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TO AMEMBASSY NEW DELHI

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FOLLOWING REPEAT STATE 158934 SENT COLOMBO DATED JULY 22, 1974.

QUOTE

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SUBJECT: INFO TO COUNTER NATIONALIZATION DEMANDS

REF: (A) COLOMBO 2054

(B) 1972 PRESIDENTIAL POLICY STATEMENT ON ECONOMIC
ASSISTANCE AND INVESTMENT SECURITY IN DEVELOPING NATIONS

1. PER EMBASSY REQUEST REF A, INFORMATION IS PROVIDED FOR
USE IN PRESENTATION TO GSL.

2. OUR GENERAL POSITION ON THE ROLE OF PRIVATE FOREIGN
INVESTMENT REMAINS AS EXPRESSED REF B - THAT PRIVATE
INVESTMENT, AS A CARRIER OF TECHNOLOGY, OF TRADE OPPORTUNI-
TIES, AND OF CAPITAL ITSELF, IS A MAJOR FACTOR IN PROMOTING
INDUSTRIAL AND AGRICULTURAL DEVELOPMENT, AND IN TURN
STIMULATES THE MOBILIZATION AND FORMATION OF DOMESTIC CAPI-
TAL WITHIN THE RECIPIENT COUNTRY.

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3. THE MOST RECENT STATISTICAL INFORMATION ACQUIRED FROM

THE US EMBASSIES IN CAIRO AND BELGRADE REGARDING US DIRECT PRIVATE INVESTMENT IS SET FORTH BELOW. THE FIGURES REPRESENT BOOK VALUE, AND ARE EXPRESSED IN MILLIONS OF DOLLARS.

- YUGOSLAVIA (JANUARY 1974) 25 (INCLUDING AGRICULTURE AND PETROLEUM)

- EGYPT (AUGUST 1973) 294.7 (MOSTLY PETROLEUM)

NEITHER THE USSR NOR THE PRC PERMITS EQUITY INVESTMENT BY THEIR OWN NATIONALS OR BY FOREIGNERS. HOWEVER, DEVELOPMENTAL PROJECTS IN THE USSR OFTEN REQUIRE SUBSTANTIAL IMPORTS OF WESTERN PRODUCTIVE EQUIPMENT AND TECHNOLOGICAL KNOW-HOW TO WHICH THE WORD "INVESTMENT" SOMETIMES IS APPLIED. BOTH THE PRC AND THE USSR HAVE SUBSTANTIALLY INCREASED THEIR IMPORTS FROM THE US OVER THE PAST FEW YEARS. THE STATISTICS BELOW, FOR TOTAL US EXPORTS, UNDERSTATE THE VOLUME COMMITTED BY PURCHASE ORDERS SINCE DELIVERY MAY TAKE PLACE OVER A PERIOD OF YEARS.

--- TOTAL US EXPORTS TO PRC AND COMMUNIST EUROPE
---- (IN MILLIONS OF US DOLS)

--- 1973 1972 JAN-APRIL 1974

PRC	690	64	465
USSR ONLY	1,190	542	261
TOTAL COMMUNIST			
AREAS IN EUROPE	1,797	819	615

4. BRIEF NARRATIVE STATEMENTS FOLLOW ON THE INVESTMENT CLIMATES IN THESE COUNTRIES.

5. USSR. ALTHOUGH NO FOREIGN EQUITY OR MANAGEMENT PARTICIPATION PRESENTLY IS ALLOWED, OFFICIAL SOVIET POLICY ENCOURAGES AND ACTIVELY SEEKS SPECIAL COMMERCIAL ARRANGEMENTS SUCH AS JOINT-DEVELOPMENT AND PRODUCTION-SHARING PROJECTS. TYPICALLY, THE PARTICIPATING FOREIGN FIRM OR CONSORTIUM PROVIDES SPECIALIZED EQUIPMENT, MACHINERY AND LIMITED OFFICIAL USE

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EXPERTISE, WHILE SOVIETS CONTRIBUTE LABOR AND LOCAL PROCUREMENT OF RAW MATERIALS AND IMMEDIATE INPUTS. CURRENTLY, TWO US FIRMS HAVE CONTRACTED TO CONSTRUCT AN ACETIC ACID PLANT WITH CAPACITY OF 150,000 TONS PER YEAR, WITH REPAYMENT TO BE MADE IN PLANT OFFTAKE. OTHER PROPOSALS ARE IN VARIOUS STAGES OF NEGOTIATION, INCLUDING DEVELOPMENT OF NATURAL GAS DEPOSITS, CONSTRUCTION OF INFRASTRUCTURE FOR CHEMICAL FERTILIZER PLANTS, AND

DEVELOPMENT AND PROCESSING OF NON-FERROUS METAL DEPOSITS.

SEVEN US FIRMS AND THREE US BANKS HAVE ESTABLISHED PERMANENT, ACCREDITED REPRESENTATIONAL OFFICES IN MOSCOW. SEVERAL OTHER APPLICATIONS ARE PENDING.

6. PRC. THERE IS NO FOREIGN INVESTMENT IN THE PRC. SINCE EARLY 1973, HOWEVER, THE PRC HAS SHOWN CONSIDERABLE INTEREST IN IMPORTING EQUIPMENT AND TECHNOLOGY FROM FOREIGN SUPPLIERS FOR OFF-SHORE OIL EXPLORATION, AND THIS HAS PROVIDED AN OPPORTUNITY FOR NUMEROUS VISITING TRADE DELEGATIONS TO PROMOTE THE JOINT-VENTURE AS A MEANS OF DEVELOPMENT, SO FAR IN VAIN. PRC OFFICIALS STATE UNEQUIVOCALLY THAT THE PRC WILL DO ITS OWN EXPLORATION AND DEVELOPMENT. NEVERTHELESS, SPECULATION PERSISTS THAT THE COST AND DIFFICULTY OF EXPLOITING OFF-SHORE OIL MAY EVENTUALLY RESULT IN SOME FORM OF COOPERATIVE ENDEAVOR WITH FOREIGN INVESTORS.

7. EGYPT. THE PASSAGE OF EGYPTIAN LAW NO. 43 REPRESENTS A CLEAR AND CONSCIOUS EFFORT TO IMPROVE THE CLIMATE FOR FOREIGN INVESTMENT IN EGYPT. IN CONJUNCTION WITH THE RECENT ANNOUNCEMENT THAT FOUR US BANK BRANCHES WILL OPEN IN CAIRO, AND WITH THE REACTIVATION OF AN INVESTMENT GUARANTEE AGREEMENT WITH THE US, THERE IS AN OBVIOUS INTENT TO ENCOURAGE AND FACILITATE THE ENTRY OF FOREIGN CAPITAL INTO EGYPT. FYI. ADDITIONAL DETAILS REGARDING THE BANK BRANCHES AND THE INVESTMENT GUARANTEE AGREEMENT ARE NOT YET AVAILABLE. END FYI.

8. BULGARIA. THE CONSTITUTIONAL BAR TO PRIVATE OWNERSHIP OF THE MEANS OF PRODUCTION PROHIBITS FOREIGN CAPITAL INVESTMENT IN BULGARIA, BUT THE GOVERNMENT IS ANXIOUS TO LIMITED OFFICIAL USE

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ATTRACT US FIRMS FOR JOINT-PRODUCTION ARRANGEMENTS. IN RETURN FOR TECHNOLOGY, KNOW-HOW AND EQUIPMENT, THE US PARTICIPANT RECEIVES A SHARE IN PRODUCTION. OFFICIALS HAVE MADE IT CLEAR THAT THEY ARE WILLING TO PROVIDE THE US PARTNER WITH SIGNIFICANT CONTROL OVER PRODUCTION, QUALITY STANDARDS, ETC., IF SUCH CONTROL DOES NOT INTERFERE WITH THE DOMESTIC PLANNING PROCESS.

9. HUNGARY. UNDER EXISTING GOVERNMENT DECREES, IT IS THEORETICALLY POSSIBLE FOR A FOREIGN INVESTOR TO ACQUIRE UP TO 49 PERCENT OF A JOINT ENTERPRISE, BUT PRESENT INDICATIONS ARE THAT APPROVAL WILL BE GRANTED ONLY ON AN EXCEPTIONAL BASIS. HUNGARY ACTIVELY ENCOURAGES COOPERATION AGREEMENTS, AND OVER 300 HAVE BEEN ENTERED INTO

BETWEEN HUNGARIAN ENTERPRISES AND WESTERN FIRMS. THESE ARE GENERALLY PRODUCTION-SHARING AND LICENSING ARRANGEMENTS.

10. CZECHOSLOVAK AGM DIRECT FOREIGN INVESTMENT IS FORBIDDEN BY LAW, AND COOPERATIVE VENTURES WITH WESTERN

FIRMS DO NOT INVOLVE ANY ELEMENT OF FOREIGN INVESTMENT. SALES OF TECHNOLOGY AND LICENSING ARRANGEMENTS RARELY INVOLVE PROVISION OF MANAGEMENT SERVICES OR TECHNOLOGY ON A CONTINUING BASIS.

11. POLAND. THE GOVERNMENT STRONGLY ENCOURAGES COOPERATION AGREEMENTS BETWEEN POLISH ENTERPRISES AND WESTERN COMPANIES. SEVERAL US FIRMS HAVE RECENTLY CONCLUDED SUCH AGREEMENTS, BUT NONE OF THEM PROVIDES FOR EQUITY INVESTMENTS. SINCE LATE 1972, THE GOVERNMENT HAS BEEN CONSIDERING A FUNDAMENTAL CHANGE IN POLICY WHICH WOULD PERMIT THE ESTABLISHMENT OF MIXED-CAPITAL JOINT VENTURES IN POLAND. NO NEW REGULATIONS HAVE YET BEEN PUBLISHED, BUT EACH PROPOSAL IS TO BE EXAMINED ON ITS MERITS.

12. ROMANIA. ROMANIA LOOKS TO DIRECT FOREIGN INVESTMENT AS AN IMPORTANT CONTRIBUTOR TO ITS INDUSTRIAL EXPANSION PROGRAM, AND ENCOURAGES JOINT-VENTURES IN ACCORDANCE WITH LEGISLATION PASSED IN EARLY 1971. THE CLIMATE FOR FOREIGN LIMITED OFFICIAL USE

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INVESTMENT IS GOOD, PARTICULARLY FOR FIRMS WHICH OFFER HIGH LEVEL TECHNOLOGY COMBINED WITH POTENTIAL EARNINGS

IN THIRD-COUNTRY EXPORT MARKETS.

13. YUGOSLAVIA. THE GOVERNMENT ACTIVELY SEEKS DIRECT

INVESTMENT, ESPECIALLY THAT WHICH IS LIKELY TO IMPROVE ITS TECHNOLOGICAL/INDUSTRIAL BASE AND TO UPGRADE MANAGERIAL KNOW-HOW. A JOINT-VENTURE LAW WAS PASSED IN 1967, WHICH PERMITS FOREIGNERS TO ACQUIRE 49 PERCENT EQUITY IN JOINT ENTERPRISES. SINCE THEN, AMENDMENTS HAVE BEEN ADDED TO MAKE INVESTMENT MORE ATTRACTIVE, INCLUDING MEASURES TO EASE PROFIT TRANSFER AND TO GUARANTEE THAT SUBSEQUENT LEGISLATION CANNOT WORSEN CONDITIONS WHICH GOVERN EXISTING JOINT VENTURES. AS OF JANUARY 15, 1974, 18 JOINT VENTURES WERE REGIS-

TERED, AMOUNTING TO MORE THAN 25-30 MILLION DOLS. KISSINGER UNQUOTE INGERSOLL

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